



# The Bulletin

May June  
1981

Department of Education

Office of Student Financial Assistance

The 1981-82 allocation letters for the Supplemental Educational Opportunity Grant (SEOG) and the College Work-Study (CW-S) programs were sent to institutions in June. Those institutions which applied for the National Direct Student Loan (NDSL) Program received only their conditional guarantee approved level of expenditures and zero Federal capital.

The Administration is submitting additional fiscal year 1981 rescission requests to Congress. These requests could involve the \$14.8 million provided for NDSL Teacher/Military Cancellation Reimbursements. Until this matter is resolved with Congress, all fiscal year 1981 NDSL funds including the \$186 million originally provided for Federal capital, have been withdrawn from the Department of Education. We will advise all institutions promptly upon the resolution of the fiscal year 1981 funding situation.

## Notes from the Acting Deputy Assistant Secretary

During the past few years, the Office of Student Financial Assistance (OSFA) initiated several procedures to ensure that title IV programs are managed properly and that funds are awarded equitably to all students eligible for student assistance. One of the procedures initiated was to have institutions validate the information students reported on their Basic Grant applications.

Prior to 1978, OSFA had been centrally validating Basic Grant applicants. These validations were conducted by both a contractor and OSFA staff. A number of studies were conducted using the data collected from these validation efforts and the application processing system. The results indicated the need to change our validation procedures, because of the following:

1. Assumptions were made by the contractor and OSFA staff about applicant data when none was entered on the Basic Grant application. For example, if the number in household was left blank, we assumed it to be the same as the number of tax exemptions. We found that, in 90 percent of the cases,

when an assumption was made on the SER, the student did not correct this assumption. We had no way of knowing whether or not the data was correct.

2. There appeared to be widespread abuse of the corrections system. Applicants were submitting corrections to their SERs which effectively could decrease their eligibility indices by more than 450 points.

3. Central validation was very limited, dependent upon lengthy correspondence, and took place after students had received at least partial payment of their Basic Grant awards. There were many complaints from aid administrators because of the lengthy delays and because they were not initially involved in the validation effort and were not able to withhold any payment of the Basic Grant award until the student complied with the validation effort.

Of the 8,000 cases selected in the 1977-78 academic year, 38 percent of the students either responded inadequately, or did not respond at all. Many of these students had already received part or all of their awards.

To remedy these problems, several steps were taken. In February 1978, we began more intensive computer screening of Basic Grant applications to identify applicants with missing or inconsistent data. Our edit procedures were revised so that no assumptions are made, unless they are based on specific data entered on the Basic Grant application.

In addition, certain applicants were selected for validation and had to document their application data before receiving payment. Currently, about 10 percent of the eligible Pell (Basic) Grant recipients are selected for validation. Of these, about 80 percent of the applicants are selected on the basis of pre-established criteria in much the same way that tax returns are selected for audit by IRS or because the applicants have made changes to their applications which resulted in a decrease to their eligibility indices. The other 20 percent are randomly selected.

The validation effort was moved to the institutional level because we believed, as did many financial aid administrators, that the face to face contact the financial aid staff have with students allows for a smoother and more effective process. It also allows for payments to be withheld until validation is completed without the undue hardship on schools and students that a centralized system creates.

We recognize that our decision to move validation of Basic Grant applications to the institutional level was not well received by everyone in the aid community. In fact, in an effort to prove to OSFA that it was a waste of time, a few aid administrators decided to do 100 percent validation at their institutions. These aid administrators shared the results with us, noting that they were amazed at the savings that were achieved by making awards based on verified data—savings that made funds available for additional students.

Overall, the very controversial validation procedure has had two effects. First, it has resulted in millions of dollars becoming available to students eligible for aid who, without validation and the assistance of the institution's financial aid staff, might not have received the funds they were entitled to. Second, it decreased the awards of those students who were identified as being overawarded.

As of May 1981, 40 percent of the students selected for validation, based on pre-established criteria (PEC), in 1980-81 had made corrections to their student eligibility reports (SERs). More than 55 percent of the corrections resulted in increased eligibility indices (EIs) for the students with an average change of more than 350 points. As a result, more than \$21 million in Basic Grant funds were "redistributed." About 13 percent of the corrections resulted in decreased EIs, with an average change of 265 points—this amounts to almost a \$4 million increase in Basic Grant funds to assist needy students, who rightly deserved the increased levels of their Basic Grant awards.

Each year, we analyze the results of the computer edits and validation. Based on this data, we have continued to refine the validation procedures. For the 1981-82 award year, computer screening of applicants will continue.

As the Education Amendments of 1980 have changed the direction of the Federal student assistance programs, they also have changed the way the programs will affect both the delivery system and students. Because we are working toward a unified delivery system based upon a single need analysis formula for both the Basic Grant and campus-based programs, the need to study and change the focus of the validation system cannot be overlooked. Specifically, for validation, we must expand our current efforts in the Basic Grant Program to cover all title IV programs except the SSIG Program.

Because of the experiences gained in Basic Grant validation, changes in the programs to be brought about by the Education Amendments of 1980, and based on a recommendation from the General Accounting Office (GAO) that financial aid admin-

istrators should verify applicant information before campus-based awards are made, we plan to expand validation in 1982-83 to include the campus-based programs.

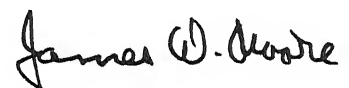
Information provided to us from institutions indicates that most financial aid administrators:

- Currently have an informal policy of documenting information reported on campus-based applications.
- Usually require the IRS 1040 tax return form to document income—the most frequently and extensively documented item.
- Use many of the same procedures to validate campus-based applications that are used for Basic Grant validation.
- Attempt to correct invalid data on campus-based applications based on documentation provided by the student or parent.

However, several questions and issues arise in addressing the overall validation system: the number of students to be selected, who will select the sample, items to be required, and type of documentation. We have held several informal meetings with members of the financial aid community to get their comments and assistance before we develop proposed regulations. A Notice of Proposed Rulemaking (NPRM) as part of the campus-based regulatory package will be sent out this summer for comments from the entire aid community.

We know that all of you share our concern that we continue to correctly manage these programs and ensure that funds are awarded in the correct amounts to those students eligible to receive them.

Sincerely,



James W. Moore

## Six Institutions Terminated

On May 4, 1981, at a hearing in Brooklyn, New York, Administrative Law Judge Manuel Taxel terminated six of eight schools involved in Department of Education (ED) termination proceedings because of their failure to grant ED access to their

student financial assistance records. The six schools were terminated because they either withdrew their request for a hearing or failed to contest the action.

The six schools terminated are:

Be'er Shmuel Talmudical Academy  
1363 50th St.  
Brooklyn, NY 11219

OHR Yisroel Rabbinical College  
60-20 Thornton Place  
Forest Hills, NY 11374

Rabbinical Collge of Sanz  
1420 50th St.  
Brooklyn, NY 11219

Yeshiva Beth Shearim-  
Mishne Halachoth Gedoloth Inst.  
5306 16th Avenue  
Brooklyn, NY 11204

Bais Yaakov Seminary of Brooklyn  
1362 49th St.  
Brooklyn, NY 11219

Rabbinical College of Tash  
144 Wilson St.  
Brooklyn, NY 11211

The other two schools involved in the proceeding, United Talmudical Academy and Rabbinical Seminary of New Square, have agreed to grant ED access to their student financial assistance records, to provide audits of their administration of the programs, to repay any liability disclosed by these audits, to cooperate with ED personnel, and to comply with all applicable regulations. The two institutions also agreed that the "emergency action" suspending their authority to receive ED funds would continue until such time as the Office of Student Financial Assistance is satisfied with their performance under the agreements.

## Common Federal Form Developed for 1982-83

The common Federal student aid application form is the first step in applying for financial aid from any of the need-based student assistance programs offered by the U.S. Department of Education (ED). The information provided by the applicant on the common Federal form will help determine his or her financial need.

The common Federal student aid application form for the 1982-83 academic year will be similar to the 1981-82 Multiple Data Entry form of CSS, ACT,

PHEAA, and Basic Grant Application form. The common Federal form will be color coded to help applicants complete the correct questions. It will also continue to collect financial information from the base year, as well as allow applicants to estimate their income.

The committee which developed the content of the application and instructions has tried to improve the accuracy of information reported on the common form. Those data elements which have been the most error prone have been reworded. Some examples are: eliminating the words adjusted gross from the data element "adjusted gross income", and calling it 1981 income from IRS form 1040. . . or form 1040A. . . , striking the word nontaxable from the data element 1981 nontaxable income and calling it "1981 other income and benefits."

The instructions on the common form have been reworded so that the applicant can better understand what information is requested on the form. The instructions also contain a new worksheet to help applicants who have not yet completed their U.S. income tax forms to determine the correct amount of their taxable income.

The common Federal form distributed by ED should be available by January 1, 1982 for all students applying for Federal financial aid for the 1982-83 academic year. The CSS, ACT, and PHEAA forms will be available in the fall of 1981.

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not in default. The authority to reclassify defaulted accounts was not intended to be used to avoid a true depiction of an institution's default rate. Prior to our adoption of the new category for accounts in 1979, a borrower who was substantially in default and unable to make a lump sum payment to bring the account to current status, would continue to be shown as in default even though regular monthly payments were being made.

Prudent management of the NDSL collection activity clearly requires that institutions develop and apply guidelines or have tangible evidence of a borrower's intent to repay the loan before it makes the decision to reclassify the borrower's status.

As a means of determining the proper classification of accounts, the institution should consider such things as: 1) total amount in default; 2) status of the

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account after application of the payment received; 3) the borrower's history of repayments; and 4) the borrower's commitment for future payments, etc. The receipt of a single payment, be it minimal or substantial, does not *automatically* warrant reclassification of the status of that account.

No single model for a pattern of repayment will meet the needs of all situations. While guidelines can be suggested, each institution must develop its own standards and procedures, keeping in mind the need for equity of application and above all the ultimate goal of collecting outstanding loans. One guideline for a pattern of repayment could be the receipt of at least three consecutive payments of an appreciable amount that would permit a judicious determination of the borrower's intent to repay the loan.

The receipt and approval of a request for partial cancellation benefits will, in most instances, alter the status of an account because the cancellation credit covers an entire year. However, in those instances where the account has been in default for several years and the cancellation credit only covers one year, further contact with the borrower must be initiated before the account is reclassified. Since the submission of a request for partial cancellation does not involve a cash expenditure by the borrower, it alone should not be automatically deemed as a definitive expression of the borrower's intent to repay the loan, if the account remains in default status after application of the cancellation credit.

The current economic climate of the country and the fluctuating Federal funding of student aid programs make it imperative that institutions protect the revolving fund concept of the NDSL Program, if sufficient funds are to be available to meet the needs of future students. Former borrowers must be made to realize that their conscientious repayment practices provide the nucleus for assistance to those who now need to borrow to obtain a college education.

## OSFA Takes Action Against SVR Non-Respondents

The Office of Student Financial Assistance (OSFA) mailed two sets of "Dear President" letters to institutions that have not submitted Student Validation Reports for one or more prior academic

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neither an initial authorization for 1981-82 nor any additional funding as a result of their 1980-81 June Progress Report until the roster is submitted. The second set of letters was mailed to approximately 85 institutions that have not submitted SVRs for 1978-79 or earlier. These letters informed the institutions that if their roster(s) are not returned by May 22, 1981, their initial authorization for 1981-82 would be withheld until it is received. A copy of the roster was forwarded with the letter.

Institutions were further informed that no additional funding would be provided as a result of their 1980-81 June Progress Report until all SVRs are returned. *To ensure that your institution receives its 1981-82 Initial Authorization on schedule, please be certain that you have returned all of your prior year Student Validation Rosters.* If you have any questions concerning whether you have any outstanding SVRs, contact the BEOG Fund Control Unit at 202-447-9025.

### Corrections

Frequent Inquiries, March-April *Bulletin* p. 10. The zip code 02114 for Region I (Boston) was omitted. The correct zip code for Region II (New York) is 10278 and Region IX (San Francisco) is 94102.

## Basic Grant Validation

**Q.** If a student selected for validation is no longer meeting satisfactory academic progress by the time (s)he completes the validation process, can this student receive payment of his/her Basic Grant award?

**A.** If the student was meeting satisfactory academic progress at the time the SER was submitted, and through the validation process this SER is determined to be valid, the student can receive payment of his/her Basic Grant award. The institution must pay only the amount which it determines could have been used for educational purposes before the student became ineligible for reasons related to satisfactory progress (Section 190.75(b)(2), January 25, 1979, Basic Grant regulations). However, if corrections to this SER are necessary, the student is no longer eligible to receive payment.

**Q.** A student who withdraws from school before (s)he completes the validation process is normally eligible for payment if that student submits a valid SER to the institution within 90 days from the end of the academic term. If the reason for the withdrawal is because the student is not meeting satisfactory academic progress, can this student receive payment

of his/her Basic Grant award if the validation process is completed within the 90 day deadline?

**A.** The student can be paid only if the original SER was valid at the time the student was making satisfactory academic progress. The 90 day extension permits a student to submit documentation to prove that the SER previously submitted is valid, however, if corrections to this SER are necessary, the student is no longer eligible to receive payment. If the SER is valid the institution must pay only the amount which it determines could have been used for educational purposes before the student became ineligible for reasons relating to satisfactory progress (Section 190.75(b)(2), January 25, 1979, Basic Grant regulations).

## Update on Program Audit Guides

### *Basic Grant*

A revised Audit Guide for the Basic Grant Program is being printed and should be available for distribution during the summer. This guide supersedes the Audit Guide dated June 1978 and will be the prescribed guide for Basic Grant audits beginning with the award period ended June 30, 1981.

### *Guaranteed Student Loan (GSL)*

No Audit Guide has been prepared for the Guaranteed Student Loan (GSL) Program. Until a Guide is published, ED will not require that audits of the GSL Program be performed. A proposal to revise the GSL audit requirement so that only schools that are lenders under the program must be audited (rather than all participating schools), is under consideration. We will advise institutions of changes in the GSL audit requirement in a future issue of *The Bulletin*.

### *National Direct Student Loan (NDSL), Supplemental Educational Opportunity Grant (SEOG), College Work-Study (CW-S)*

The 1980 Audit Guide for the campus-based programs must be used for audits of the programs covering 1980-81. An update to this Guide, as well as any additional audit steps required by the Education Amendments of 1980, will be published in the July-August 1981 issue of *The Bulletin*.

All audits are due in the Office of the Regional Inspector General for Audit no later than 180 days following the end of the program year on June 30.

The number of copies of the audit report which must be submitted to the Regional Inspector General

has been reduced to four. This change is effective immediately and applies to audits of the campus-based and Basic programs. Institutions should inform their auditors of this change.

## Additional P.O. Boxes for 1981-82 Processing Center

The following post office box numbers are additions to the list published in the March-April *Bulletin* on page 5. These post office box numbers should be used when 1981-82 Pell (Basic) Grant Applicants have questions about, or corrections to, their Pell (Basic) Grant forms:

Basic Grants  
P.O. Box ( )  
Los Angeles, California 90009

ADS  
Form 304-1 (92883)  
Correspondence (92884)

Return Address (92881)  
(Production Administration,  
Data Control, Quality Control)

McLean and OSFA (92872)

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second is the institution's approved Level of Expenditure (LOE) which is the amount of NDSL funds the institution may expend in the 1981-82 award year. If your institution has an approved LOE for 1981-82 noted on its award letter, the institution is authorized to begin making loans as of July 1, 1981, from cash on hand in its loan fund.

We will notify you as soon as the fiscal year 1981 funding situation is resolved.

## RFP Issued For Private Collection Agency Assistance

The Department of Education has issued a Request for Proposal (RFP) for private collection agency assistance under the Federal Insured Student Loan and National Direct Student Loan programs.

The contractor(s) selected will assist the Office of Student Financial Assistance in performing collection activities. These activities will include locating and contacting debtors, billing debtors, maintaining records on accounts, and transmitting collection information to the Department's computerized data base. The contractor(s) will not pursue any debtor through litigation.

Three separate contracts will be awarded under this RFP. The work performed under each contract will be nationwide, however, the work for one contract will be performed in Atlanta, Georgia, another in Chicago, Illinois, and another in San Francisco, California.

The closing date for receipt of proposals for RFP 81-093 is July 23, 1981. Proposals should be sent to:

U.S. Department of Education  
Office of Procurement and  
Assistance Management Operations  
Support Branch  
ROB-3, Room 5671  
Washington, D.C. 20202  
Attn: Glenn Perry

## 1981-82 Dial-Award Inserts Available

As reported in the March-April *Bulletin*, we distributed 1980-81 Dial-Award calculators to schools participating in the Pell (Basic) Grant Program and asked those schools for their comments. The responses we received indicated that a number of schools preferred the calculators to the Payment

Schedules, while other schools believed the Dial-Awards offered no advantage to them.

As a result of our survey, we decided that, rather than distribute the Dial-Awards to all schools, we would make them available upon request. (The calculator wheels are reusable.) If you would like to receive 1981-82 inserts, write to—

U.S. Department of Education  
400 Maryland Avenue, S.W.  
Office of Student Financial Assistance  
ROB-3 Room 4661  
Washington, D.C. 20202

We will distribute 1981-82 Payment Schedules when they become available.

## 1981-82 Validation Handbook and Tolerances Insert

In the March-April *Bulletin*, we stated that the tolerances would be issued at a later date as a supplement to the Validation Handbook. As of this date, the 1981-82 Validation Handbook has been mailed. In addition, the tolerance supplement has been mailed out separately and will complete Chapter IV of the Handbook. A revised edition of the Handbook is being printed. It will have a section concerning the tolerances, and the word "Revised" will appear on the cover so that this edition may be readily distinguished from the one we mailed previously. It is important to note that the only changes to the Handbook involve the cover and the incorporation of the tolerances section into Chapter IV. There are no other changes. The printing of the revised edition will be completed soon. Copies of the most recent edition of the 1981-82 Validation Handbook may be obtained from the following address:

Validation Handbook  
Office of Student Financial Assistance  
U.S. Department of Education  
400 Maryland Avenue, S.W.  
ROB-3, Room 4661  
Washington, D.C. 20202

## 1981-82 Validation Form Requests

By now, all institutions should have received initial supplies of Validation Forms. All students selected for validation will receive a copy of the Validation Form with their Student Eligibility Reports. Additional copies of the Validation Form may be requested from the following address:

Validation Forms  
U.S. Department of Education  
Office of Student Financial Assistance  
400 Maryland Avenue, S.W.  
ROB-3, 4661  
Washington, D.C. 20202

To facilitate shipping, we will fill orders by using packages containing 40 copies each. Please specify the needed number of additional copies using multiples of forty.

## **Schools Notified of Failure to Submit Basic Grant Audits**

On May 15 the Division of Certification and Program Review sent letters to approximately 1,200 institutions which either failed to submit the first required audit of the Basic Grant Program within the prescribed time frame or failed to arrange for an extension of time to submit the audit. This first audit covers the 1978-79 and 1979-80 award periods. If the audit was not already underway, institutions were instructed to have the audit completed by June 30, 1981. If the audit is not submitted or if arrangements for an extension are not made, institutions will be subject to action terminating their eligibility to participate in the title IV SFA programs.

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